

Message Text

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ACTION EUR-25

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OECD PARIS

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E.O. 11652: N/A

TAGS: EFIN, IT

SUBJECT: ITALIAN EXCHANGE MARKET DEVELOPMENTS

1. SUMMARY. EXCHANGE MARKET DEVELOPMENTS SO FAR
DURING AUGUST SUGGEST MODEST OVERALL BALANCE OF PAYMENTS
DEFICIT FOR MONTH. BALANCE OF PAYMENTS WAS
IN DEFICIT FIRST HALF OF MONTH BY \$160 MILLION,
BRINGING CUMULATIVE ADJUSTED DEFICIT FOR EIGHT AND A HALF
MONTHS TO \$6,517 MILLION. SINCE MID-AUGUST

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MONTH PERIOD TO \$6,517 MILLION. SINCE MID-AUGUST

BOI HAS APPARENTLY MADE NET GAINS OF PERHAPS \$50 MILLION, DESPITE SOME SMALL LOSSES IN RECENT DAYS. ALTHOUGH COMPARING UNFAVORABLY WITH JULY SURPLUS OF ABOUT \$382 MILLION, AUGUST PERFORMANCE CAN BE CONSIDERED REASONABLY GOOD COMPARED TO HEAVY LOSSES DURING FIRST HALF OF YEAR. WEIGHTED AVERAGE LIRA EXCHANGE RATE HAS STRENGTHENED SLIGHTLY SO FAR DURING SECOND HALF OF MONTH. END SUMMARY.

2. ON AUGUST 27 HEAD OF BANK OF ITALY EXCHANGE OPERATIONS ERCOLANI DESCRIBED BALANCE OF PAYMENTS PERFORMANCE FOR FIRST HALF OF AUGUST AS COMPARATIVELY GOOD NOTING THAT SINCE AUGUST 15 BOI TOOK IN SOME \$50 MILLION. FOR PAST SEVERAL DAYS, HOWEVER, BOI WAS AGAIN SELLING MODEST AMOUNTS OF DOLLARS IN EXCHANGE MARKET.

3. MONETARY MOVEMENTS DATA FOR FIRST HALF OF AUGUST SHOW DEFICIT OF \$160 MILLION. MAJOR OFFICIAL TRANSACTIONS IN FIRST HALF OF AUGUST INCLUDED DRAWING OF IMF GOLD TRANCHE (\$322 MILLION) AND UTILIZATION OF IMF STANDBY CREDIT (\$300 MILLION). OFFICIAL BOI FOREIGN EXCHANGE GAINS NET OF OTHER TRANSACTIONS WERE \$298 MILLION. THERE WAS IMPROVEMENT IN SHORT-TERM LIABILITY POSITION AS RESULT OF REPAYMENT OF SWAP WITH BELGIAN CENTRAL BANK. RELATIVELY SMALL DEFICIT TO DATE IN AUGUST IS IMPROVEMENT OVER VERY LARGE DEFICITS EARLIER THIS YEAR, BUT SOMEWHAT DISAPPOINTING AFTER JULY SURPLUS. AUGUST IS, OF COURSE, PEAK MONTH FOR TOURIST RECEIPTS. ALSO, FIGURES ARE NOT INCONSISTENT WITH POSSIBILITY THAT TRADE ACCOUNT MAY BE IMPROVING SOMEWHAT. UNFORTUNATELY, NO TRADE DATA ARE AVAILABLE FOR JULY OR AUGUST SO THAT REASONS FOR BALANCE OF PAYMENTS IMPROVEMENT ARE NOT YET CLEAR.

4. RECORDED CUMULATIVE DEFICIT FOR PERIOD FROM JANUARY THROUGH MID-AUGUST WAS \$4,367 MILLION AND ADJUSTED CUMULATIVE DEFICIT (INCLUDING EUROMARKET BORROWINGS OF \$2,150 MILLION) WAS \$6,517 MILLION. CUMULATIVE DEFICIT WAS FINANCED BY DECLINE IN BOI FOREIGN EXCHANGE ASSETS BY \$530 MILLION, WORSENING LIMITED OFFICIAL USE

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IN NET IMF POSITION BY \$359 MILLION AS RESULT OF DRAWING DOWN OF GOLD TRANCHE, REDUCTION IN NET SHORT-TERM LIABILITIES BY \$337 MILLION MAINLY AS RESULT OF REPAYMENT OF SWAPS WITH BELGAIN CENTRAL BANK, INCREASE IN MEDIUM AND LONG-TERM LIABILITIES OF \$2,379 MILLION (INCLUDING EC'S CREDIT, MONTEDISON COMPENSATORY LOAN, AND IMF STANDBY LIABILITY), EUROMARKET BORROWINGS OF \$2,150, NET SHORT-TERM

BORROWINGS OF COMMERCIAL BANKS OF \$1,434 MILLION,
AND REDUCTION OF \$2 MILLION IN SDR HOLDINGS.

5. ERCOLANI INFORMED TREASATT THAT EUROMARKET WAS
STILL SATURATED AND HE SAW NO IMMEDIATE PROSPECTS OF
FURTHER FINANCING FOR ITALIAN BALANCE OF PAYMENTS
DEFICIT FROM THIS SOURCE. FURTHERMORE, HE
INDICATED BOI WAS LOOKING TO US AS NECESSARY SOURCE
OF FUTURE FINANCING THROUGH SOME FORM OF RECYCLING
OF ARAB OIL MONEY WHICH HE BELIEVED WAS BEING DIRECTED
PRIMARILY TOWARD US FINANCIAL MARKET.

6. ON AUGUST 27 LIRA EXCHANGE RATE WAS 659 LIRE PER
DOLLAR. WEIGHTED AVERAGE DEVALUATION OF LIRE,
ACCORDING TO BOI INDEX, WAS 18.17 PERCENT. THIS IS
MODEST IMPROVEMENT OVER 18.58 PERCENT WHICH WAS LOW
POINT SO FAR FOR AUGUST. VOLPE

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